

MENAREC 5

PLENARY SESSION 2.1

RENEWABLE ENERGY FINANCING

MARRAKECH, KINGDOM OF MOROCCO

15-16 MAY 2012

“Together we build a better future”



Islamic Development Bank

- HQ: Jeddah, Saudi Arabia
- Regional Offices: Kazakhstan, Malaysia, Morocco and Senegal
- Local Offices in several member countries
- AAA (Moody's, Fitch and S&P)
- "Zero Risk-Weight" by Basel Committee on Banking Supervision

Priorities:

- Human Development
- Agriculture & Food Security
- Infrastructure Development
- Private Sector Development
- Intra Trade between MCs
- R&D in Islamic Finance and Economics

Total Assets: US\$ 15.6 bn
(November 2011)

Authorized Capital:: US\$ 45.78 bn

Paid-up Capital : US\$ 6.04bn

56 Member Countries

Sub-Saharan Africa– 22
Middle East & North Africa – 19
South East Asia– 8
Central Asia–7

Staff: Around 1,000

Total Net Financing: US\$ 70.32 bn

Energy Financing (1)



During the period 2000 - 2011, IDB contributed to the financing of 78 energy projects in 26 MCs, totaling US\$ 4.93 billion.

Energy lending levels increased dramatically starting from 2009 (with a peak US\$1.16 billion in 2010).

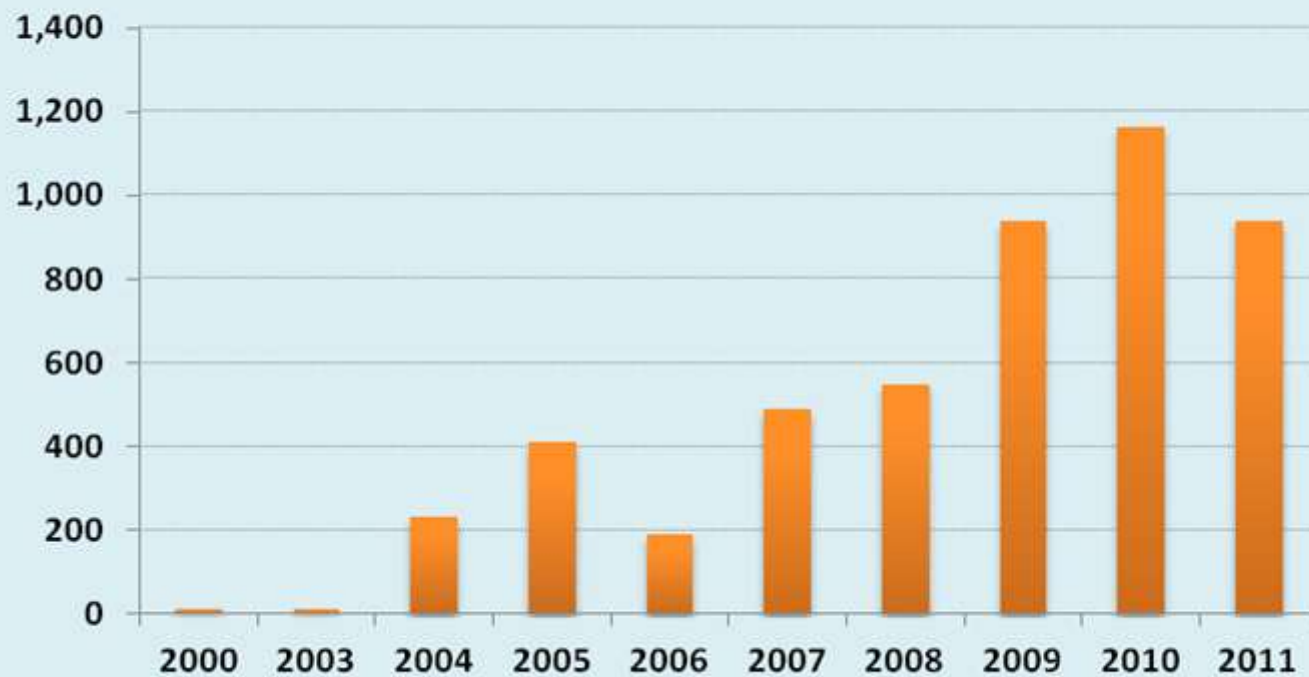
The last three years made up 62 % of total financing during the 2000-11 period with 2010 alone accounting for 24 % of the total.

Energy Financing (2)



Rapid Scale-up in Recent Years

Figure 1. IDB Active Energy Portfolio (mln US\$) from 2000 to 2011



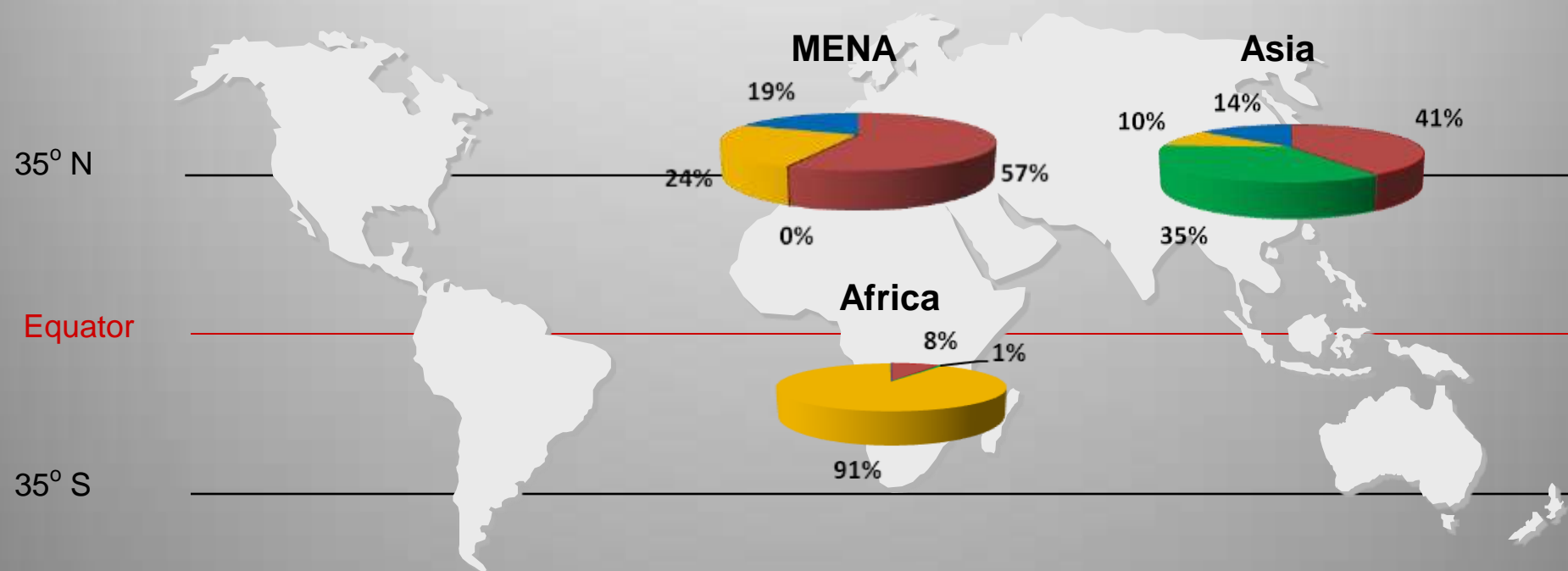
Source: IDB Energy Team

IDB Active Energy Portfolio

Projects Types by Geography



- Generation – conventional
- Generation – renewable
- Transmission & Distribution
- Other (Gas, Petrochem, Mining, etc)



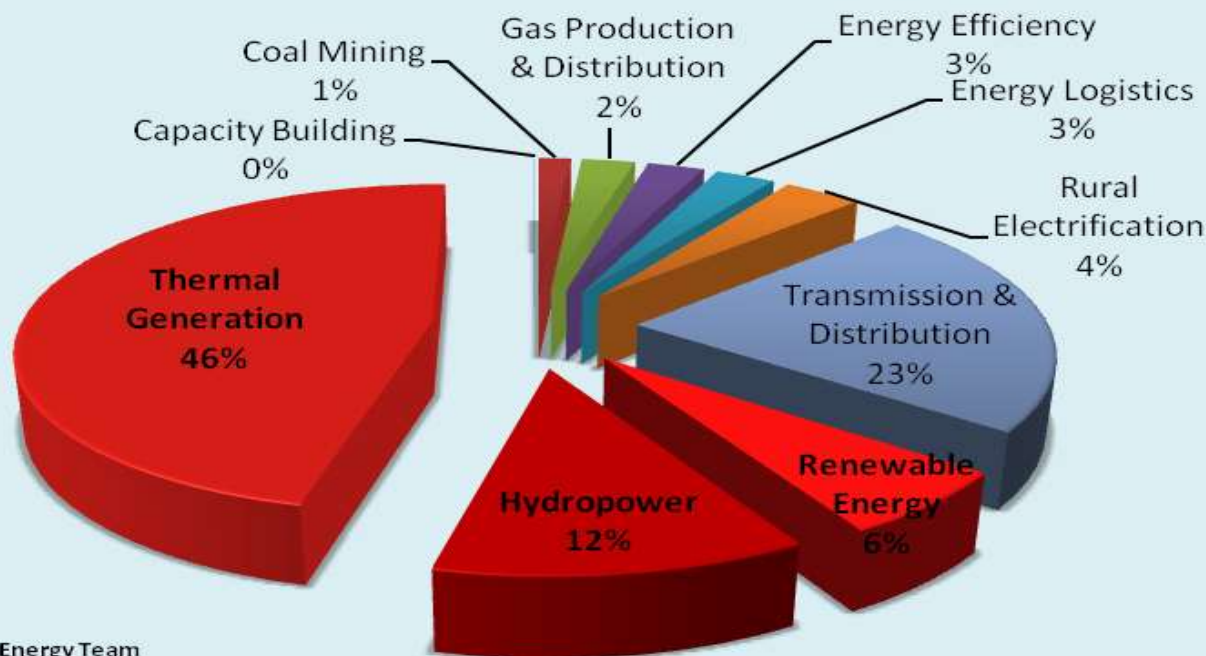
Salient Features of IDB's Energy Portfolio



Power generation dominates IDB's energy financing portfolio, accounting for 65 % of the total lending. RE *stricto sensu* does not exceed 6% and EE 3%.

Power Generation Dominates Energy Portfolio

Figure 2. IDB Active Energy Portfolio by Energy Sub-Sector



Source: IDB Energy Team



The Way Ahead (1)

- IDB intends to enhance its green energy portfolio (solar, wind, waste-to-energy, hydro projects, EE etc.) both quantitatively and relatively to its overall energy portfolio.
- Combined with the financing of large schemes, RE solutions for remote locations will also be supported (IDBG is working on creating a Renewable Energy Fund to support small scale RE projects).
- The Bank is also determined to facilitate policy and institutional support with a view to help MCs install an enabling environments for RE ventures.
- Financing of sustainable energy requires support mechanisms to make funding more concessional, especially for low/middle-income countries.
- Hence, coordination and collaboration between donors (through co-financing or technical cooperation) has become a prerequisite for action.

The Way Ahead (2)



■ Examples:

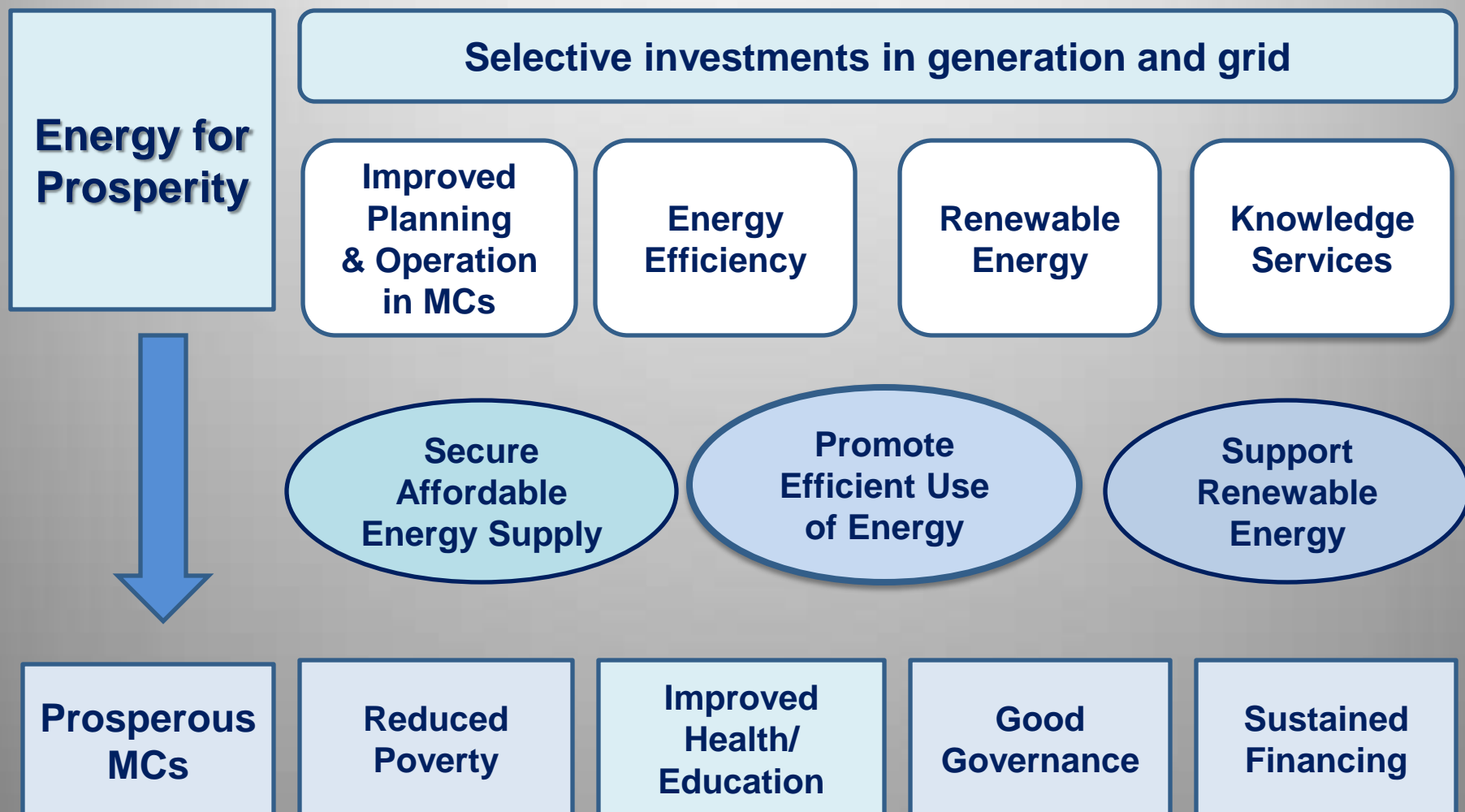
- ✓ Arab Financing Facility for Infrastructure, (AFFI) established by IDB, the WB and IFC is poised to play an important role. Its TA Facility (TAF) provides awareness raising, enabling environment and transaction advisory services to governments to assist in preparing PPP projects: RE could be one of the targeted sectors.
- ✓ Already established cooperation in infrastructure with the AfDB, the ADB and the Coordination Group (Arab Donors +OFID + IDB) may include more RE projects.
- ✓ Early stage of discussions with the EU Commission, EBRD, KfW/GIZ to identify areas and modalities of cooperation in RE.
- ✓ Similar discussions have taken place with IRENA concerning inter alia the Renewables Readiness Assessment (RRA) methodology.

The Way Ahead (3)



- Coordination/convergence between countries is encouraged by the Bank in all areas : the “*Reverse Linkage*” initiative supports knowledge transfer among our MCs (South-South basis). Example: workshop in Jeddah in February 2012 included a theme on "RE for the Poor" where Turkey was the provider and 6 sub-Saharan MCs were the recipients.
- To conclude: the IDB will continue pursuing cooperation opportunities in the RE and EE areas with its traditional partners as well as with new ones. It will also promote advocacy for RE among the Coordination Group.
- In sum, IDB will strive to establish formal partnership mechanisms in the “RE/EE financing in its constituency to make of energy an efficient tool to promote prosperity.

Towards a New Energy Paradigm



ISLAMIC FINANCING INSTRUMENTS



Debt Finance

- Ijara, Leasing (equipment, plant, machinery) → about 15% of IDB financing
- Istisna'a, Construction finance (civil works) → about 55% of IDB financing
- Installment Sale → about 30% of IDB financing

Sukuk (Islamic bonds)

- Sovereign Sukuk (by Governments for general budget use)
- Corporate Sukuk (by corporations using their balance sheets)
- Project Sukuk (by project companies, SPV, to finance specific projects)

Equity Finance

- Direct equity participation (Musharaka, profit sharing)
- Infrastructure Equity Funds
 - Global, e.g., IDB Infrastructure Funds, I and II
 - Regional, e.g., IDB-ADB Islamic Infrastructure Fund
 - Sectoral, e.g., Energy Fund, Telecom Fund



PRESENTATION FOR **MENAREC 5**

THANK YOU

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